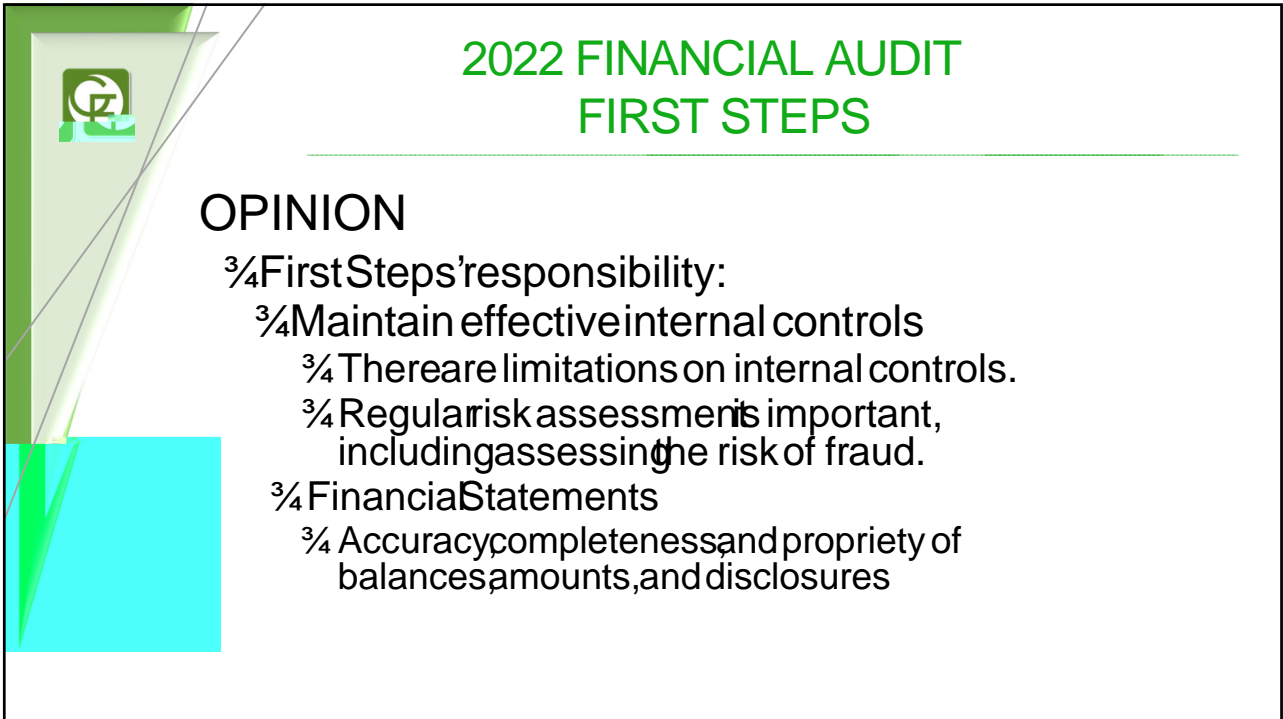
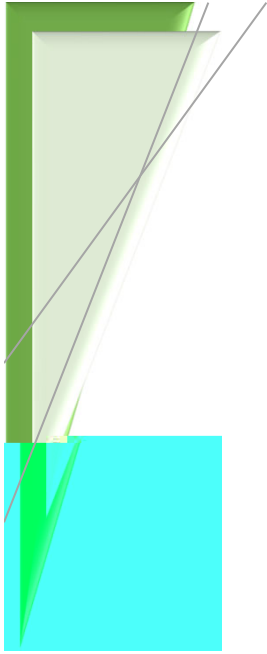


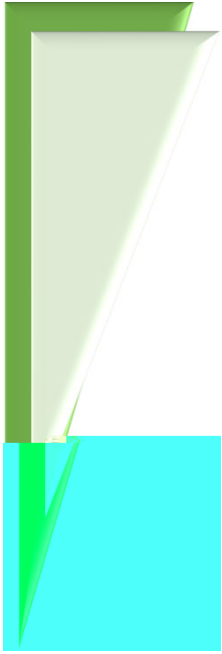


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2022 FINANCIAL AUDIT FIRST STEPS

Other Notes:

- Total capital assets were \$1.0M at 6/30/22, consisting of right of use lease assets. These assets are being amortized over the lease term.
- Commitment of



2022 FINANCIAL AUDIT FIRST STEPS

Compliance

- Single Audit was performed by the State Auditor's Office
- GAGAS opinion – No issues to report.

Management Letter

September 27, 2022

Mr. George L. Kennedy, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina
and
Members of the Board of Trustees
South Carolina First Steps to School Readiness
Columbia, South Carolina

We have audited the financial statements of the governmental activities and each major fund of South Carolina First Steps to School Readiness (“First Steps”) for the year ended June 30, 2022 (“2022”). Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit.

The most significant sensitive estimates affecting First Steps' financial statements were:

Management's estimates of the other postemployment benefit and pension balances are based on actuarial valuations (the assumptions used in the actuarial valuations are based on accounting requirements, actuarial standards, historical data, and industry trends) prepared and certified by independent actuaries. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. For purposes of this communication, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on First Steps' financial

Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedules, schedule of proportionate share of the net pension liability – South Carolina Retirement System, schedule of contributions – South Carolina Retirement System, schedule of proportionate share of the net OPEB liability –

South Carolina First Steps to School Readiness

Financial Statements

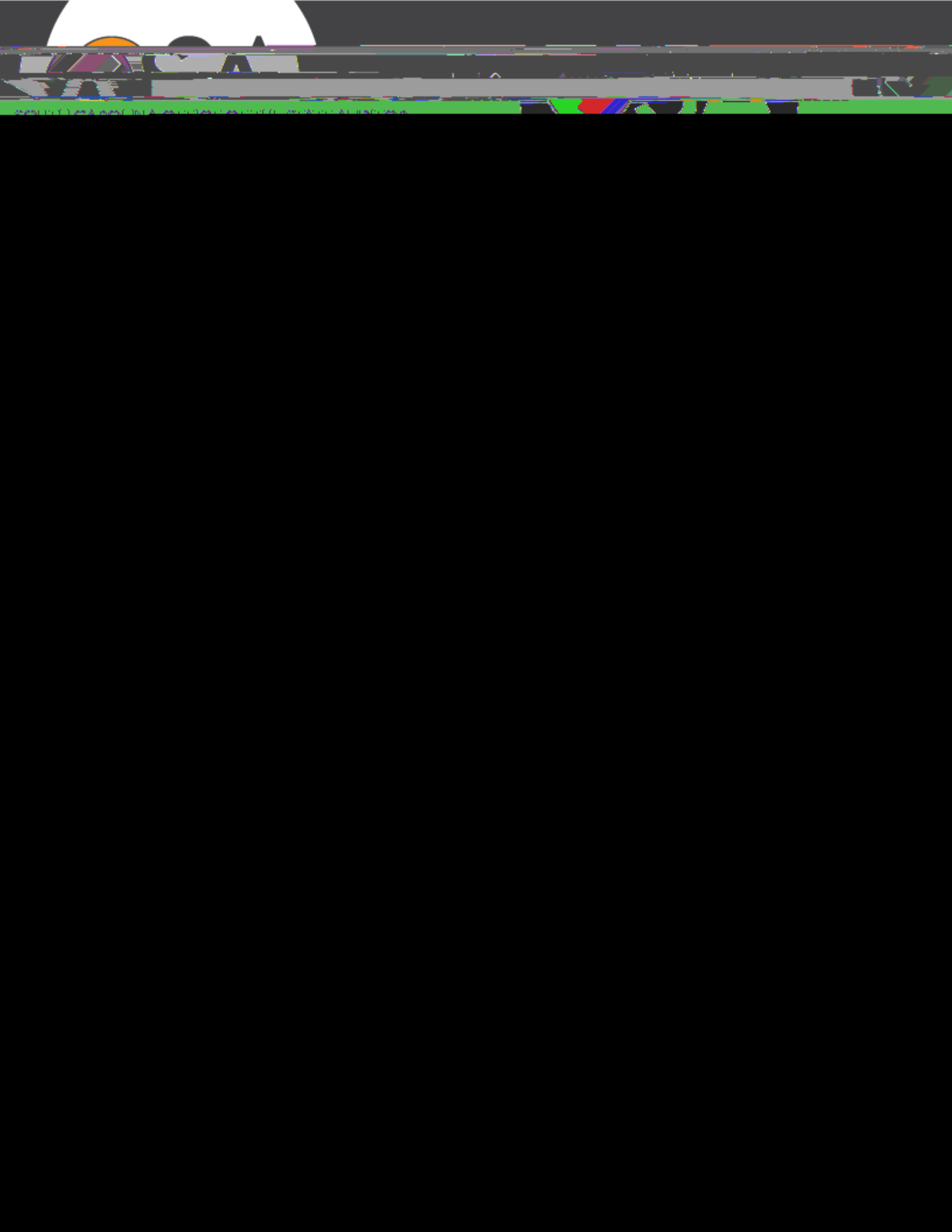
For the Year Ended June 30, 2022

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INDEPENDENT AUDITOR'S REPORT

Mr. George L. Kennedy, CPA
State Auditor

concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance ~~about~~ whether the financial statements as a whole are free

assurance on the information because the limited procedures do not provide us with sufficient evidence to

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2022

The Management's Discussion and Analysis ("MD&A") of the South Carolina First Steps to School Readiness

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2022

Fund Statements:

The fund financial statements include the governmental funds' Balance Sheet and Statement of Revenue, Expenditures, and Change in Fund Balances. The governmental fund financial statements are presented on the modified accrual basis of accounting which focus on the near term inflows and outflows of resources available for expenditure for the fiscal year.

First Steps was created specifically to carry out the objectives of The South Carolina First Steps to School Readiness Act and to lessen the burdens on government

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2022

Statements of Activities– The Statements of Activities reports the revenues and expenses during the 2022 and 2021 fiscal years.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
STATEMENTS OF ACTIVITIES

	<u>2022</u>	<u>2021</u>
Program Revenues		
Federal, state, local and private grants	\$ 11,338,840	\$ 8,993,227
Total program revenues	<u>11,338,840</u>	<u>8,993,227</u>
General Revenues		
State appropriations	51,542,466	36,131,007
Interest income and other revenues	<u>75,958</u>	<u>154,690</u>
Total general revenues	<u>51,618,424</u>	<u>36,285,697</u>
Total revenues	<u>62,957,264</u>	<u>45,278,924</u>
Expenses		
Allocations to other entities	19,320,197	14,633,351
Private 4K provider costs	21,438,801	14,819,034
Contractual services	3,717,072	3,040,570
Salaries	4,228,301	3,350,578
Employer fringe benefits	437,392	524,802
Short-term rent and leases	79,741	194,674
Materials	2,215,102	1,019,761
Travel	173,518	58,883
Interest expense	5,268	—
Depreciation	238,699	23,745

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2022

Funds Highlights:

Governmental Funds:

The focus of First Steps governmental funds is to provide information regarding actual inflows and outflows of spendable resources. The General Fund is the primary operating fund of First Steps, while the Private 4K special revenue fund accounts for the private activities of the 4K program administered by First Steps.

The General Fund's operating revenues are primarily appropriations from the State of South Carolina and state and local grants. For state appropriations, revenues are not budgeted by First Steps, therefore, expenditures are typically matched with appropriations so long as expenditures do not exceed budget. State appropriations and other revenues exceeded First Steps' program expenses resulting in revenues to exceed expenditures by \$726,482 for the year ended June 30, 2022. First Steps also reported other financing sources from leases of \$1,222,729 and when combined with the excess of revenues over expenditures, there was an increase in fund balance from the beginning fund balance amount of \$15,436,179 to \$258,390, which includes \$872,200 in nonspendable fund balance, \$2,060,347 in fund balance restricted for the 4 pre-school and early childhood services, and \$632

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2022

First Steps is also required to record its proportionate share of the net OPEB liability in accordance with GASB Statement No. 75 and represents First Steps' share of the State's net OPEB liability related to the State's Retiree Health Insurance Trust Fund. The OPEB liability as of June 30, 2021 was \$5,336,555 and increased to \$6,993,958 at June 30, 2022, due to an increase in participants applicable to First Steps as well as an increase in the overall OPEB liability of the State. See note 7 to the financial statements for additional information regarding First Steps' OPEB plan.

Right of Use Lease Assets:

In addition to requiring First Steps to record lease liabilities, GASB Statement No. 87 also required First Steps to recognize intangible right of use assets related to the lease agreements. The initial lease asset recorded during the year ended June 30, 2022 related to the lease liability of \$1,222,729. The lease assets are then amortized over the term of the lease. During the year ended June 30, 2022, amortization expense of \$216,933 was recorded, resulting in an ending balance of \$1,005,796.

Budget Highlights:

First Steps budgets State appropriations and other funds (earmark, restricted and federal) as they are received during the year. First Steps' original and final budget for the General Fund was \$6,770,328 for the year ended June 30, 2022. Actual expenditures, on the budgetary basis, totaled \$6,581,300. These amounts were spent primarily on the CDEPP programs (child development program). The total other funds final budget was \$55,563,946. Actual expenditures, on the budgetary basis, totaled \$46,807,700. These amounts were spent primarily on allocations to First Steps and county partnerships and the CDEPP programs.

Current Conditions that are expected to have a Significant Effect on First Steps' Financial Position:

During the 2022 state fiscal year, First Steps received the largest amount of revenue they have received to date of \$62,957,264. This revenue included successfully implementing several large Federal Grants along with the statewide expansion of the 4K Program. These Federal Grants included the Governors Emergency Education Relief Fund (GEER) of \$4,684,113, the Preschool Development Grant (PDG) for \$4,739,903, and the Elementary and Secondary School Emergency Relief (ESSER) Fund for \$1,084,387. Most of these funds were distributed to the Local Partnerships and

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2022

In 2022-23, the state appropriated an additional \$10 million in recurring General Funds for First Steps to provide READY grants to the Local Partnerships. The Agency will award these funds during the 2022-23 fiscal year. 3% of these funds will be retained by First Steps for administering, monitoring, and evaluation of the grant.

Even with the conclusion of some of our grants, First Steps is well positioned to meet its mission going forward.

This discussion and analysis is designed to provide a general overview of the South Carolina First Steps to School Readiness' finances for all of South Carolina citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate First Steps' accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina First Steps to School Readiness
636 Rosewood Drive
Columbia, South Carolina 29201

South Carolina First Steps to School Readiness
Statement of Net Position
June 30, 2022

ASSETS

Current asset

Cash and cash equivalents	\$ 23,951,570
Prepaid expenses	872,200
Grants receivable	2,291,109
Other receivables	189,057
Total current assets	27,303,936

Noncurrent assets:

Right of use lease asset	1,005,796
Total noncurrent assets	1,005,796
Total assets	28,309,732

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions	1,875,247
Deferred outflows of resources related to OPEB	2,592,774
Total deferred outflows of resources	4,468,021

LIABILITIES

Current liabilities:

Accounts payable	134,350
Accrued salaries and benefits	513,209
Compensated absences, current	194,717
Lease liabilities, current	249,073
Unearned revenue	

South Carolina First Steps to School Readiness
Statement of Activities
For the Year Ended June 30, 2022

Expenses

Governmental Activities – General Government	
Allocations to other entities	\$ 19,320,197
Private 4K provider costs	21,438,801
Contractual services	3,717,072
Salaries	4,228,301
Employer fringe benefits	437,392
Short-term rent and leases	79,741
Materials	2,215,102
Travel	173,518
Interest expense	5,268
Depreciation	238,699

South Carolina First Steps to School Readiness
Balance Sheet -

South Carolina First Steps to School Readiness
 Reconciliation of the Balance Sheet of the Governmental Funds
 to the Statement of Net Position
 June 30, 2022

Total fund balance, governmental fund \$ 26,516,483

Amounts reported for governmental activities in the
 Statement of Net Position are different because:

Lease related assets used in governmental activities are not
 current financial resources and therefore are not reported
 in the fund financial statements, but are reported in
 governmental activities in the Statement of Net Position.
 This amount reflects gross lease assets of \$1,222,729 net
 of accumulated depreciation of \$216,933.

1,005,796

The net pension and net OPEB liabilities and related
 deferred inflows and outflows of resources are not due
 and payable in the current year and are not included in
 the fund financial statements, but are included in
 governmental activities in the Statement of Net Position.

Net pension liability	(6,280,921)
Net OPEB liability	(6,993,958)
Deferred outflows of resources related to pensions	1,875,247
Deferred inflows of resources related to pensions	(1,399,708)
Deferred outflows of resources related to OPEB	2,592,774
Deferred inflows of resources related to OPEB	(2,378,977)

Certain liabilities are not due and payable in the current
 period and are not included in the fund financial
 statements, but are included in the governmental
 activities in the Statement of Net Position

Compensated absences	(367,520)
Lease liabilities	<u>(994,907)</u>

Net position of governmental activities in the Statement of Net Position	<u>\$ 13,574,309</u>
---	----------------------

The notes to the financial statements are an integral part of these financial statements. See accompanying
 independent auditor's report.

South Carolina First Steps to School Readiness
Statement of Revenues, Expenditures, and Change in Fund Balance -
Governmental Funds
For the Year Ended June 30, 2022

Private 4K

General Fund

South Carolina First Steps to School Readiness
Reconciliation of the Statement of Revenues, Expenditures,
and Change in Fund Balance of the Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2022

Net change in fund balance, governmental fund	\$ 9,813,808
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Amounts reported for governmental activities in the
Statement of Activities are different because:

Current year retirement plan contributions are considered a

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation, Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are presented in accordance with Generally Accepted Accounting Principles (“GAAP”) using the accrual basis of accounting and following pronouncements issued by the Government Accounting Standards Board (“GASB”).

All of the functions available to finance First Steps are presented together as general government activities. Financial information for funds that are not available to finance these activities are not included; consequently, the government-wide financial statements exclude fiduciary assets and liabilities, when applicable.

Fund Financial Statements

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation, Measurement Focus and Basis of Accounting (continued)

Cash and Cash Equivalents

The amounts shown in the accompanying financial statements cash and cash equivalents represent petty cash, cash on deposit in banks, cash equivalents on deposit with external parties, and cash invested in various instruments as a part of the State's cash management pool, an internal investment pool. The internal investment pool is not registered with the Securities and Exchange Commission and does not have other regulatory oversight. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit, and collateralized repurchase agreements.

Cash Management Pool – Allocation of Interest

The State of South Carolina cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account. All earnings on that account are recorded in the General Fund of the State of South Carolina. In contrast, each special deposit account retains its own earnings.

Investment Holdings and Basis

The South Carolina State Treasurer's Office (the "Office") is authorized by statute to invest all State funds. The Office's investment objectives are preservation of capital, maintenance of adequate liquidity, and obtaining the best yield possible within prescribed parameters. To meet those objectives, the Office uses various resources including an investment advisory service, electronic financial quotation and information services, economic reports, and daily communication with brokers and financial institution investment officers.

To ensure safety of principal, the Office's policy is to invest in securities that are rated at least A-1 by Moody's and Aaa by Standard & Poor's. The Office's policy is to invest in securities that are not subject to call or redemption within one year of maturity. The Office's policy is to invest in securities that are not subject to call or redemption within one year of maturity. The Office's policy is to invest in securities that are not subject to call or redemption within one year of maturity.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation, Measurement Focus and Basis of Accounting (continued)

Lease Liabilities

First Steps has entered into agreements for certain facilities and equipment. The lease agreements qualify as other than short-term leases under GASB No. 87 and, therefore, have been recorded at the present value of the future minimum lease payments.

Unearned Revenue

Unearned revenue consists of funds provided to First Steps under grant agreements for which eligible expenditures had not been made as of June 30, 2022. These amounts will be recognized as

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

1. Summary of Significant Accounting Policies (continued)

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

4. Capital Assets

Capital asset activity for the fiscal year ended J

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

6. Pension Plan (continued)

Plan Descriptions (continued)

Benefits (continued)

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employees who participate in the death benefit program.

The annual retirement allowance of eligible members or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Contributions

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for. The legislation also increased employer contribution rates beginning July 1, 2017 for SCRS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. However, the General Assembly postponed the one percent increase in the SCRS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS is scheduled to be reduced over a ten-year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

6. Pension Plan (continued)

Plan Descriptions (continued)

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

6. Pension Plan (continued)

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2022

6. Pension Plan (continued)

Net Pension Liability

The NPL is calculated separately for each system and represents that particular system's TPL determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2021, for SCRS is presented below.

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 55,131,579,363	\$ 33,490,305,970	\$ 21,641,273,393	60.7%

The TPL is calculated by the Systems' actuaries and each plan's fiduciary net position is reported in the Systems' financial statements. The NPL is disclosed in accordance with the requirements of

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

6. Pension Plan (continued)

Net Pension Liability (continued)

Long-term Expected Rate of Return (continued)

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2021 fiscal y

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

6. Pension Plan (continued)

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2022, First Steps recognized pension benefit of \$576,641 which is included in employer fringe benefits in the accompanying financial statements. At June 30, 2022, the First Steps reported deferred outflows (inflows) of resources related to pensions from the following sources and will be amortized to pension expense as noted in following schedules. Average remaining service lives of all employees participating with pensions through the pension plans at June 30, 2022 was 3.91 years for SCRS:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 661,453	\$ —
Differences in actual and expected plan experience	106,988	8,477
Change in proportionate share and differences between First Steps' contributions and proportionate share of contributions	763,009	478,844
Changes in assumptions	343,797	—

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

7. Post-Employment Benefits Other than Pensions (continued)

Contributions and Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires the postemployment and long-term disability benefits to be funded through non-employer and employer contributions for active employees and retirees through the PEBA – Insurance Benefits.

The SCRHITF is funded through participating employers that are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office on active employee covered payroll. The covered payroll surcharge for the year ended June 30, 2020 was 6.25 percent. The South Carolina Retirement System collects the monthly covered payroll surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employee active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs. Non-employer contributions include the mandatory transfer of tuctt The c.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

7. Post-Employment Benefits Other than Pensions (continued)

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

7. Post-Employment Benefits Other than Pensions (continued)

Net OPEB Liability (continued)

The TOL is calculated by the Trusts' actuary and each Trust's fiduciary position is reported in the Trust's financial statements. The NOL is disclosed in accordance with the requirements of GASB No. 74 in the Trusts' notes to the financial statements and required supplementary information. Liability calculations performed by the Trusts' actuary for the purpose of satisfying

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

7. Post-Employment Benefits Other than Pensions (continued)

Net OPEB Liability (continued)

Sensitivity Analysis

The following table presents the SCRHITF's OPEB liability calculated using a Single Discount Rate of 1.92%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

Sensitivity of the Proportional Share of Net OPEB Liability to Changes in the Single Discount Rate			
OPEB Trust	1.00% Decrease (0.92%)	Current Discount Rate (1.92%)	1.00% Increase (2.92%)
SCRHITF	\$ 8,429,450	\$ 6,993,958	\$ 5,862,250

Regarding the sensitivity of First Steps' proportionate share of SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents First Steps' proportionate share of the net OPEB liability, calculated using the assumed trend rates as well as what First Steps' proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

Sensitivity of the Proportional Share of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
OPEB Trust	1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
SCRHITF	\$ 5,611,037	\$ 6,993,958	\$ 8,836,655

OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2022, First Steps recognized OPEB expense of \$126,689. At June 30, 2022, First Steps reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 249,642	\$ —
Differences in actual and expected plan experience	141,536	179,266
Changes in assumptions	1,421,905	168,405
Change in proportionate share and differences between First Steps' contributions and proportionate share of contributions	779,691	2,029,415
Net differences between projected and actual earnings on plan investments	—	1,891
	<u>\$ 2,592,774</u>	<u>\$ 2,378,977</u>

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

10. Transactions with State Entities / Related Parties (continued)

First Steps provided no material services free of charge to other State agencies during the fiscal year. First Steps participates in the statewide employment program. Workers' compensation and other insurance premiums for the fiscal year ended June 30, 2022 of \$57,301 were paid to the State Accident Fund and \$63,397 of premiums were paid to the South Carolina Insurance Reserve Fund.

11. Leases

First Steps leases facilities and equipment from other State agencies. These leases have terms between 22 and 60 months requiring monthly payments. First Steps has used discount rates of 0.53% to 5.26% to

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

11. Leases (continued)

As of June 30, 2022, the principal and interest requirements to maturity for the lease liabilities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2023	\$ 249,073	\$ 5,051	\$ 254,124
2024	242,320	3,409	245,729
2025	240,994	2,084	243,078
2026	242,275	803	243,078
2027	20,245	9	20,257
	<u>\$ 994,907</u>	<u>\$ 11,356</u>	<u>\$ 1,006,266</u>

12. Commitments and Contingencies

Grants

First Steps receives financial assistance from various state and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of First Steps at June 30, 2022.

County Partnership Regional Finance Managers

During 2018, First Steps entered into a contract with a single Regional Finance Manager for its County Partnerships. The contract had a five-year term which expired during the fiscal year ending June 30, 2022. A new contract was entered into with the same Regional Finance Manager that also carries a five year term and escalating annual payments. Future payments under this contract are as follows:

Year ending June 30,	
2023	\$ 489,000

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

12. Commitments and Contingencies (continued)

Local Partnership Accounting Software Development

During the year ended June 30, 2019, First Steps entered into an agreement for the development and implementation of a new accounting software for the local partnerships. The contract is for an initial three-year term with two one-year extensions and required an initial \$125,000 expenditure for design and implementation. The contract requires annual payments of approximately \$61,000 for licensing and user rights.

SC First Steps new Outcomes and Accountability System, (Knowledge, Information, and Teaming System: KITS)

During the year ended June 30, 2021, First Steps entered into an agreement for the development and implementation of a new Data System for the Local Partnerships and the 4K Program. This system will meet the data needs for the agency for the foreseeable future. The award was given to ANLAR, a company with experience in developing data systems for early education and government entities. The solicitation was awarded for \$1,422,881, to be paid between March 11, 2021 through March 10, 2026. A large portion of the expenses are included in the Preschool Development Grant through a contract between First Steps and the South Carolina Department of Social Services ("DSS") with \$795,029 of that amount was paid during the period ending June 30, 2022, leaving \$504,420 remaining under the agreement.

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South Carolina First Steps to School Readiness
Required Supplementary Information -
Budgetary Comparison Schedule – Budgetary General Funds
(Non-GAAP Budgetary Basis– Unaudited)
For the Year Ended June 30, 2022

Budgeted Amounts			Variance
Original	Final	Actual	Positive (Neg

South Carolina First Steps to School Readiness
 Required Supplementary Information -
 Budgetary Comparison Schedule – Other Budgeted Funds
 (Non-GAAP Budgetary Basis – Unaudited)
 For the Year Ended June 30, 2022

	Budgeted Amounts					
	Original	Final	Actual	Variance	Positive	(Negative)
Expenditures: First Steps to School Readiness Polic						

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2022

1. Budgetary Funds

South Carolina's Annual Appropriation Act, the State's legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

General Funds - These funds are general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

Total Funds - The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust funds and some other fiduciary fund activities.

Amounts presented as Other Budgeted Funds are obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds columns. Revenue is not presented in the budgetary

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2022

3. Legal Level of Budgetary Control

First Steps maintains budgetary control at the level of summary objective category of expenditure within each program of each department or agency which is the level of detail presented in the accompanying schedules.

4. Basis of Budgeting

Current legislation states that the General Assembly appropriates all monies to operate State government for the current fiscal year. Unexpended appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. First Steps has such authorization to carry forward its funds. Cash-basis accounting for payroll expenditures is used, while the accrual basis is used for other expenditures.

State law does not precisely define the State's budgetary basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- x Departments and agencies shall charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 14.
- x All revenues are recorded only when the State receives the related cash with the exception of certain tax amounts, such as motor fuel and gas taxes, which are not received by First Steps' General Funds.

5. Budget to GAAP Reporting Differences

Budgetary accounting principles differ significantly from GAAP accounting principles. Basis differences arise because the basis of budgeting differs from the GAAP basis used to prepare the statement of revenues, expenditures, and changes in fund balance. In the current year, there are funds that are received by First Steps that are not legally budgeted and therefore, the amounts reported as actual expenditures on the budgetary basis do not agree to the actual expenditures reported in the governmental fund Statement of Revenue, Expenditure, and Changes in Fund Balance and the Statement of Activities. Differences between the budgetary comparison schedules for the General Funds and Other Budgeted Funds as compared to the Statement of Revenues, Expenditures, and Changes in Fund Balance are related strictly to the modified accrual basis of accounting which include accounts receivable and accounts payable as revenues and expenditures in the current year while the budgetary basis would include those amounts in the year that payments were actually received or paid. A reconciliation of the budgetary basis expenditures to the GAAP basis expenditures is below:

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2022

5. Budget to GAAP Reporting Differences (continued)

Reconciliation of Budget Basis to GAAP Basis Expenditures
For the Year Ended June 30, 2022

	General Fund	Other Budgeted Funds	Total
Total expenditures, budgetary basis	\$ 6,581,300	\$ 46,807,700	\$ 53,389,000
Perspective differences:			
All expenditures are reported in the General Fund for GAAP	46,807,700	(46,807,700)	—
Basis of accounting differences:			
Change in accrued salaries	117,358	—	117,358
Change in accounts payable	25,229	—	25,229
Prepaid expenses are not amortized on the budgetary basis	(872,200)	—	(872,200)
Amounts grossed up for GAAP			

South Carolina First Steps to School Readiness
Required Supplementary Information -
Schedule of the South Carolina First Steps
to School Readiness' Proportionate Share of the Net
Pension Liability – South

South Carolina First Steps to School Readiness

South Carolina First Steps to School Readiness
 Required Supplementary Information -
 Schedule of the South Carolina First Steps
 to School Readiness' Proportionate Share of the Net
 OPEB Liability – South Carolina Health Insurance Trust Fund
 As of June 30, 2022
 Last Six Fiscal Years

	2022	2021	2020	2019	2018
First Steps' proportion of the net OPEB liability	0.033587%	0.029563%	0.027578%	0.033958%	0.056381%
First Steps' proportionate share of the net OPEB liability	\$ 6,993,958	\$ 5,336,555	\$ 4,170,259	\$ 4,812,069	\$ 7,645,667
First Steps' covered payroll					

South Carolina First Steps to School Readiness
 Required Supplementary Information -
 Schedule of the South Carolina First Steps
 to School Readiness' Contributions -
 South Carolina Health Insurance Trust Fund
 As of June 30, 2022
 Last Six Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 249,643	\$ 195,768	\$ 170,317	\$ 145,923	\$ 161,065
Contributions in relation to the					
contractually required contribution	249,643	195,768	170,317	145,923	161,065
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
First Steps covered payroll					
Contributions as a percentage of	\$ 3,994,281	\$ 3,132,288	\$ 2,725,077	\$ 2,411,951	\$ 2,928,455
Covered payroll	6.25%	6.25%	6.25%	6.05%	5.50%
Contractually required contribution					
Contributions in relation to the	<u>\$ 232,315</u>				
contractually required contribution	232,315				
Contribution deficiency (excess)	<u>\$ -</u>				
First Steps covered payroll					
Contributions as a percentage of	\$ 4,760,094				
Covered payroll	4.88%				

Note: Only six years of data were available; thus, only six years are presented.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
SUPPLEMENTARY INFORMATION -

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Mr. George L. Kennedy, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of South Carolina First Steps to School Readiness ("First Steps"), a discretely presented component unit of the State of South Carolina, as of and for the years ended June 30, 2022, and the related notes to the financial statements, which collectively comprise First Steps' basic financial statements, and have issued our report thereon dated September 27, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered First Steps' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purposes

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Greene Finney Cauley, LLP
Mauldin, South Carolina
September 27, 2022